

**REPORT OF THE AUDIT OF THE
BELL COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES**

April 28, 2006



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
BELL COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES

April 28, 2006

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2005 Taxes for the Bell County Sheriff as of April 28, 2006. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$4,348,552 for the districts for 2005 taxes, retaining commissions of \$165,445 to operate the Sheriff's office. The Sheriff distributed taxes of \$4,180,853 to the districts for 2005 Taxes. Refunds of \$1,430 are due to the Sheriff from the taxing districts.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Alvey Brock, Bell County Judge/Executive
Honorable Bruce Bennett, Bell County Sheriff
Members of the Bell County Fiscal Court

Independent Auditor's Report

We have audited the Bell County Sheriff's Settlement - 2005 Taxes as of April 28, 2006. This tax settlement is the responsibility of the Bell County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Bell County Sheriff's taxes charged, credited, and paid as of April 28, 2006, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 8, 2006 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Alvey Brock, Bell County Judge/Executive
Honorable Bruce Bennett, Bell County Sheriff
Members of the Bell County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
December 8, 2006

BELL COUNTY
BRUCE BENNETT, SHERIFF
SHERIFF'S SETTLEMENT - 2005 TAXES

April 28, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 665,312	\$ 660,194	\$ 1,032,447	\$ 670,430
Tangible Personal Property	119,016	93,319	124,120	253,045
Intangible Personal Property				68,074
Fire Protection	3,188			
Increases Through Exonerations	971	782	128	501
Franchise Taxes	197,373	163,031	486,475	
Gas Property Taxes	37,167	36,881	124,366	37,453
Oil and Gas Property Taxes	3,277	3,252	10,966	3,303
Limestone, Sand and Mineral Reserves	424	421	1,419	427
Penalties	7,637	7,491	13,908	8,330
Adjusted to Sheriff's Receipt		28	9	14
Gross Chargeable to Sheriff	<u>1,034,365</u>	<u>965,399</u>	<u>1,793,838</u>	<u>1,041,577</u>
<u>Credits</u>				
Exonerations	7,788	7,588	18,399	7,718
Discounts	11,559	11,022	17,777	14,658
Delinquents:				
Real Estate	48,087	47,646	54,693	48,385
Tangible Personal Property	326	255	908	1,164
Intangible Personal Property				14
Delinquent Franchise Taxes	<u>44,096</u>	<u>37,954</u>	<u>106,590</u>	
Total Credits	<u>111,856</u>	<u>104,465</u>	<u>198,367</u>	<u>71,939</u>
Taxes Collected	922,509	860,934	1,595,471	969,638
Less: Commissions *	<u>39,494</u>	<u>36,590</u>	<u>47,864</u>	<u>41,497</u>
Taxes Due	883,015	824,344	1,547,607	928,141
Taxes Paid	882,715	823,823	1,546,596	927,297
Refunds (Current and Prior Year)	<u>837</u>	<u>830</u>	<u>1,595</u>	<u>844</u>
Refunds Due Sheriff as of Completion of Fieldwork	<u>\$ (537)</u>	<u>\$ (309)</u>	<u>\$ (584)</u>	<u>\$ 0</u>
		**	***	

*, **, and *** See Next Page

The accompanying notes are an integral part of this financial statement.

BELL COUNTY
BRUCE BENNETT, SHERIFF
SHERIFF'S SETTLEMENT - 2005 TAXES
April 28, 2006
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	2,743,081
3% on	\$	1,595,471

** Special Taxing Districts:

Library District	\$	200
Health District		74
Solid Waste		<u>35</u>

Refunds Due Sheriff	\$	<u><u>309</u></u>
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*** School Districts:

Bell County School	\$	279
Pineville Independent School		<u>305</u>

Refunds Due Sheriff	\$	<u><u>584</u></u>
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BELL COUNTY
NOTES TO FINANCIAL STATEMENT

April 28, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

BELL COUNTY
NOTES TO FINANCIAL STATEMENT
April 28, 2006
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 28, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2005. Property taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 10, 2005 through April 28, 2006.

Note 4. Interest Income

The Bell County Sheriff earned \$732 as interest income on 2005 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder is to be used to operate the Sheriff's office. As of December 8, 2006, the Sheriff owed no interest to the school district or his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Bell County Sheriff collected \$28,949 of 10% add-on fees allowed by KRS 134.430(3). This amount is to be used to operate the Sheriff's office. As of December 8, 2006, the Sheriff owed \$1,056 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Bell County Sheriff collected \$6,030 of advertising costs and \$4,005 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees are to be used to operate the Sheriff's office. As of December 8, 2006, the Sheriff owed no advertising costs to the county and no advertising fees to his fee account.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2004 taxes, the Sheriff had \$693 in unrefundable duplicate payments and unexplained receipts. For the 2005 taxes, the Sheriff had \$420 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

COMMENT AND RECOMMENDATION

BELL COUNTY
BRUCE BENNETT, SHERIFF
COMMENT AND RECOMMENDATION

As of April 28, 2006

INTERNAL CONTROL – REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

During our review of internal control, we found the Sheriff's office lacks an adequate segregation of duties. Due to the entity's diversity of official operations, small size, and budget restrictions, the official had limited options of establishing an adequate segregation of duties. We recommend the Sheriff implement the following compensating controls to offset these internal control weaknesses.

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should compare the monthly tax reports to the receipts ledger for accuracy. Any differences should be reconciled. The Sheriff could document this by initialing the receipts ledger. An initialed reconciliation between monthly receipts and disbursements would also be sufficient.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response: I will comply.

PRIOR YEAR:

There were no prior year comments.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Alvey Brock, Bell County Judge/Executive
Honorable Bruce Bennett, Bell County Sheriff
Members of the Bell County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Bell County Sheriff's Settlement - 2005 Taxes as of April 28, 2006, and have issued our report thereon dated December 8, 2006. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bell County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- The County Sheriff Lacks Adequate Segregation of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Bell County Sheriff's Settlement - 2005 Taxes as of April 28, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
December 8, 2006

